

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SCI-06 HEW-08 CIAE-00 DODE-00 PM-07

H-03 INR-10 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01

SS-15 USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 OTPE-00

FCC-03 OC-06 CCO-00 PC-04 RSR-01 /179 W

----- 000033

R 041100Z SEP 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 9476

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMCONSUL RECIFE

LIMITED OFFICIAL USE BRASILIA 5697

E.O. 11652: N/A

TAGS: EGEN; ETEL, BR

SUBJECT: EMBASSY COMMENTS ON GOB DECREES ON TELECOMMUNICATIONS  
AND MEDICINES

REF: BRASILIA 5556 SAO PAULO A-59

1. REFTELS CONTAIN DETAILED INFO ON TWO NEW GOB DECREES  
AFFECTING BUSINESS OPERATION IN SECTORS OF COMMUNICATIONS  
AND HEALTH. THE DECREES NOTE THE GOVERNMENT INTEREST AND  
DESIRE TO PLAY A GREATER ROLE IN THE PRODUCTION PROCESS.  
REACTIONS FROM THE BUSINESS COMMUNITY INDICATE THAT THEY  
ARE NOT ALARMED BY THE GOVERNMENT ACTIONS. THE FOLLOWING  
REPRESENTS THE EMBASSY ASSESSMENT OF GOVERNMENT POLICY.

2. DECREES ARE CLEARLY SIGNIFICANT FOR THE TWO INDUSTRIES  
DIRECTLY INVOLVED, COMMUNICATIONS AND MEDICINES. FAR MORE  
IMPORTANT QUESTION, HOWEVER, IS WHETHER THESE EFFORTS  
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REPRESENT SIGNIFICANT NEW DIRECTION OF GOB POLICY TOWARDS

FOREIGN INVESTMENT IN GENERAL.

3. GENERAL PRELIMINARY REACTION BY BUSINESS COMMUNITY  
IS THAT IT DOES NOT. EMBASSY AGREES WITH THIS JUDGMENT.

4. COMMUNICATIONS AND MEDICINE ARE  
SPECIAL SECTORS OF ECONOMY. GOVERNMENT ROLE IN BOTH HAS  
ALWAYS BEEN LARGE AND INTERVENTIONS FREQUENT. IN COMMUNI-  
CATIONS, FOREIGN COMPANIES PROVIDING SERVICES HAVE LONG  
BEEN NATIONALIZED. MINISTRY OFFICIALS IN RECENT YEARS  
HAVE PLAYED MAJOR ROLE IN PLANNING AND IN ALLOCATING SHARES  
OF BUSINESS TO MANUFACTURING COMPANIES IN BRAZIL. IN PAST,  
EMBRATEL HAS REPORTEDLY BEEN DISAPPOINTED BOTH BY PRIVATE  
MANUFACTURER'S HESITANCY TO EXPAND CAPACITY AND BY THEIR  
REPEATED DEFICIENCIES IN MEETING QUALITY STANDARDS AND  
DELIVERY DATES. ONE EMBRATEL OFFICER VENTURED OPINION THAT  
TELEBRAS PARTICIPATION IN PRIVATE COMPANIES MIGHT HELP REMEDY  
THESE PROBLEMS. MAJOR MOTIVATING ELEMENT IN NEW DECREE WAS  
UNDOUBTEDLY DESIRE TO IMPROVE PLANNING AND IMPLEMENTATION OF  
PROGRAM IN COMMUNICATIONS, VITAL SECTOR IN WHICH GOVERNMENT  
HAS THE MAJOR RESPONSIBILITY.

5. SIMILAR FACTORS APPLICABLE IN PRODUCTION OF MEDICINES.  
GOVERNMENT VERY MUCH CONCERNED ABOUT POOR STATE OF HEALTH  
CONDITIONS IN BRAZIL. GENERAL POLICY IS TO MAKE MEDICINES  
AVAILABLE AT CHEAPEST COST TO AS MANY PEOPLE AS POSSIBLE.  
PRELIMINARY REPORTS WE HAVE RECEIVED INDICATE  
THAT THIS INDUSTRY AS WELL IS TAKING PRAGMATIC "WAIT AND  
SEE" APPROACH TO GOVERNMENT POLICY AS EVIDENCED IN NEW DECREES.

6. IN SPECIAL SECTORS OF COMMUNICATIONS AND HEALTH, THE  
MOST IMPORTANT ELEMENT IN NEW DECREES IS EXPRESSION OF  
INTENTION TO PARTICIPATE IN MANUFACTURING OPERATIONS. IF  
SUCH PARTICIPATION IS ON MODEST SCALE, AS APPEARS LIKELY,  
THERE SHOULD BE NO SERIOUS DIFFICULTIES.

7. IN SUMMARY, WE SEE NO CHANGE IN FUNDAMENTAL POLICY OF  
PRESENT GOVERNMENT TOWARD FOREIGN INVESTMENT. IT IS ALSO  
OUR VIEW THAT NEXT ADMINISTRATION UNDER PRESIDENT GEISLE  
WILL, IN ALL LIKELIHOOD, ADOPT SAME APPROACH. WE WOULD  
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WISH TO ADD, HOWEVER, A NOTE A GENERAL CAUTION.

8. IN BRAZILIAN SOCIETY, THERE HAS ALWAYS BEEN AN  
ELEMENT OF OPPOSITION TO FOREIGN INVESTMENT, HOSTILITY HAS  
BEEN MOTIVATED BY A WIDE VARIETY OF FACTORS AND HAS EXHIBITED  
ITSELF IN DIFFERENT WAYS. THE MDB FOR EXAMPLE, THE TAME OFFICIAL  
OPPOSITION PARTY, IS CRITICAL OF THE GOVERNMENT'S POLICY  
TOWARD FOREIGN INVESTMENT. NATIONALISM IN BRAZIL IS STRONG

AND FOREIGN INVESTMENT IS A VERY EASY TARGET AT WHICH TO AIM.  
WITH THE MDB PLANNING TO ADVANCE A PRESIDENTIAL CANDIDATE  
AND TO SPREAD ITS MODERATELY NATIONALIST MESSAGE DURING  
THE "CAMPAIGN", IT IS TO BE EXPECTED THAT THE QUESTION  
OF FOREIGN INVESTMENT OR, PERHAPS BETTER, THE QUESTION  
OF STRENGTHENING BRAZILIAN ENTERPRISE, WILL BE ADDRESSED  
MORE PROMINENTLY.  
CRIMMINS

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